Inflation Targeting and Central Bank Independence: Has the Post-2021 Inflation Surge Undermined Policy Credibility?

Macroeconomics & Monetary Policy

Difficulty	Advanced	**Recommended Length**	13,000 – 16,000 words
Keywords	inflation targeting, central bank independence, Bank of England, Federal Reserve, ECB, monetary policy	**Academic Support**	AssignProSolution.com

Introduction

Inflation targeting became the dominant monetary policy framework among advanced economies during the 1990s and 2000s. It rested on a simple premise: if a central bank credibly commits to an inflation target and operates independently of political interference, inflation expectations become anchored and price stability follows. The surge in inflation across the US, UK, and eurozone from 2021 to 2023 — the worst episode in forty years — stress-tested that framework in ways that are still being processed. This dissertation examines what the episode reveals about the limits of inflation targeting and whether central bank credibility survived intact.

Background and Context

The Bank of England, the Federal Reserve, and the ECB all substantially underestimated inflation in 2021 and were slow to raise rates. The Fed's pivot from describing inflation as 'transitory' to implementing the fastest tightening cycle since the 1980s was widely noted. Political pressure on central banks intensified — in the UK, the Bank of England faced unusual public criticism from sitting ministers. The episode raises questions about whether the independence framework is robust to supply-side inflation shocks and whether inflation forecasting models are fit for purpose in a world of geopolitical supply disruption.

Key Research Questions

1. Did the major central banks' slow response to post-2021 inflation represent a forecasting failure, a framework failure, or both?
2. Has political pressure on central banks increased measurably during the 2021–2023 tightening cycle?
3. Does the evidence suggest that inflation expectations became de-anchored during this period?
4. What modifications to the inflation-targeting framework do leading economists propose and what does the evidence support?

Suggested Methodology

Quantitative analysis of inflation forecast errors across the Bank of England, Federal Reserve, and ECB (2020–2023) using publicly available forecast vintages. Event study analysis of central bank communication and market reactions to rate decisions. Content analysis of parliamentary and congressional testimony to assess political pressure intensity. Systematic literature review of the post-2021 monetary policy debate.

Key Theoretical Frameworks

- Inflation Targeting Framework — Bernanke & Mishkin (1997)
- Time Inconsistency Problem — Kydland & Prescott (1977)
- Credibility and Reputation in Monetary Policy — Barro & Gordon (1983)
- New Keynesian DSGE Models — Woodford (2003)

Common Challenges and How to Address Them

The events are recent enough that the academic literature is still catching up. Working paper databases (NBER, CEPR, BIS) are more useful than journals here — many of the most relevant pieces have not yet completed peer review but are intellectually rigorous and widely cited. The dissertation should acknowledge the rapidly evolving evidence base and be explicit about what the current state of the literature supports versus what remains contested.

Conclusion and Next Steps

This is a dissertation topic at the frontier of active academic and policy debate. A strong piece does not simply describe what happened — it builds a specific, evidenced argument about what the 2021–2023 episode reveals about the design of monetary policy frameworks and what should change. That requires engaging with the economics seriously, which is what separates a first-class dissertation from a competent literature review. For expert support on economics dissertations, visit **AssignProSolution.com**.

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